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SUBJECT: MERCOSUR: THE ARGENTINE PRO TEMP PRESIDENCY AND
THE UPCOMING BRAZILIAN PRESIDENCY - THE VIEW FROM URUGUAY

REF: A. MONTEVIDEO 465

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Classified By: James D. Nealon, Charge d'Affaires a.i.,
for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: Argentina's pro temp presidency of Mercosur is seen in Uruguay as a resounding failure that weakened the trading bloc's institutions. The conflict over the paper pulp mills overshadowed the entire presidency, as the dispute spun out of control and Argentina blocked the GOU's attempts to resort to Mercosur for a resolution. There was little if no progress on perfecting the customs union. Uruguay and to a lesser extent Paraguay became increasingly vocal in their criticism of the bilateral axis of Argentina and Brazil. They also publicly questioned Mercosur's overall usefulness for its smaller members. The only movement under Mercosur's Argentine presidency was a definite acceleration of the process to integrate Venezuela.

[1](#)2. (C) The change of presidency will be celebrated at the next Mercosur Summit in Cordoba on July 20-21, when Brazil takes over. This Summit is likely to be dominated by Venezuela's formal induction. As for Brazil's pro temp presidency, expectations are that it may be distracted by general elections. Chavez may be tempted to take center stage within Mercosur, and this may accentuate the shift of Mercosur from a trade-oriented bloc to a more political entity. GOU officials generally expect Brazil to produce another lackluster presidency of Mercosur. End Summary.

The conflict over the pulp mills spun out of control

[1](#)3. (SBU) The conflict over the pulp mills spun out of control during the Argentine presidency. No one could have expected such a harsh conflict, not only because of the traditionally good neighborly relations between the two countries, but also given the initially perceived ideological affinity between Vazquez and Kirchner. President Vazquez was reportedly deeply

offended that Argentine President Kirchner did not even answer his personal letter requesting a special meeting of Mercosur to deal with the pulp mill issue.

¶4. (U) The GOU eventually sued the GOA before the Mercosur Court of Arbitration for not complying with the requirement to grant "free transit of goods" within the bloc (under the first article of the Treaty of Asuncion). The Tribunal has not been able to meet, however, as Argentina has contested the designated President of the Court, Spanish jurist Luis Marti. At the meeting of Mercosur foreign ministers in Buenos Aires on June 16, the GOU finally presented its case on the bridges blockade but failed to align Brazil and Paraguay to its side, as both countries' foreign ministers refused to get involved and called for a bilateral negotiated solution to the conflict.

Little progress on perfecting the customs union

¶5. (U) There was little progress in harmonizing the Common External Tariff (CET), integrating the four customs and agreeing on ways to distribute customs revenues. While it was agreed that some goods would be traded duty free, these are the goods that currently pay zero CET. The CET is still replete with exceptions too numerous to list (100 for Argentina and Brazil, 225 for Uruguay and 650 for Paraguay, plus the exceptions made by special import systems such as the giant Manaus Free Trade Zone (FTZ), the Tierra del Fuego FTZ, and all of the other FTZs). About half of Mercosur's imports are not covered by the CET. If Mercosur does not perfect its CET, it is unlikely that any progress will be made in negotiations with the EU.

Uruguay increasingly disappointed and critical

¶6. (C) The GOU is extremely disappointed with Mercosur. President Vazquez and EconMin Astori have repeatedly sent strong signals of discontent with the direction in which Mercosur is heading. Vazquez was clearly disappointed at the way Kirchner used his pro temp presidency to prevent any attempts by the GOU to resort to Mercosur mediation in the paper mills dispute. The increased bilateral handling of trade issues between Argentina and Brazil (ref C) has been perceived here as a clear snub to Mercosur's smaller members. Tri-lateral meetings with Venezuela, again excluding Uruguay and Paraguay, have tended to exacerbate this perception. As a result, Uruguay, Paraguay and Bolivia held their own summit in Asuncion a couple of months ago to discuss a gas pipeline whose layout would purposely skirt Argentina.

¶7. (U) This disappointment with Mercosur has not been limited to the GOU but has extended to the private sector as well. In an unusual move, the five largest business chambers in Uruguay recently issued a joint

open letter extremely critical of Mercosur, in which they urged the GOU to embark on free trade agreements with the U.S. and other markets. Meanwhile, Uruguay continues to diversify exports away from Mercosur, as exports to the trade bloc grew by 6.5 percent on a year-to-year basis, well below the 18 percent growth to non-Mercosur markets. Still, no one, whether within the GOU, the opposition or the private sector, calls for a withdrawal from the trade bloc. The stated goal for all is "more and better Mercosur" (Ref B).

Progress on Venezuela's integration into Mercosur

¶8. (U) The most important and most trumpeted achievement of Argentina's pro temp presidency has been Venezuela's accelerated incorporation into Mercosur. On June 16, Mercosur's foreign ministers met in Buenos Aires to pin down the conditions for entry which had

been arranged at the May 23 technical meeting, also in Buenos Aires (ref A). These conditions are that Venezuela will: 1) have 4 years to adopt the CET; 2) have 4 years to pass and implement Mercosur's legislation; 3) have 6 years to grant full duty-free treatment on sensitive goods from Mercosur countries (under a non-linear schedule); 4) have a still indeterminate transition period to implement the customs union (i.e. trading the rest of the goods duty free). In addition, Venezuela will be able to participate in Mercosur's foreign negotiations upon signing the accession protocol in Cordoba. This protocol will then have to be ratified by the five legislatures. Venezuela will become a full member 30 days after ratification of the protocol.

¶9. (C) We had been told by Uruguayan negotiators at the May 23 technical meeting that there had been considerable pressure from Brazil and Argentina to reach an agreement on Venezuela's accession. In return for Uruguay and Paraguay's acceptance, Venezuela pledged to grant immediate preferential access on a list of products.

¶10. (C) From what our contacts tell us, Venezuela's accession is bound to give the bloc a more political flavor than its original trade-oriented intent. Chavez will undoubtedly use his newly-found bully pulpit to rail against the U.S. and promote his "Bolivarian Alternative", unfortunately with the seal of Mercosur. Venezuela's integration may also make it much more difficult for Uruguay to obtain a waiver to negotiate a Free Trade Agreement (FTA) outside of Mercosur, whether with the U.S. or with other partners. As far as we know, the GOU has not officially submitted the request for the waiver, but contacts have been made and MFA

officials told us the GOU will raise the issue with Brazilian ForMin Celso Amorim during his visit to Montevideo on June 23.

What will happen at the Mercosur Summit in Cordoba?

¶11. (C) The centerpiece of the Cordoba Summit will most likely be the signing by Venezuela of its protocol of accession to Mercosur. There have been rumors that Cuban leader Fidel Castro will also be present, the first time he would ever attend a Mercosur Summit. Given the lack of progress on the trade front, this will be the opportunity to showcase the new political dimension of Mercosur. Chavez may also want to show his accession to Mercosur as one more step down the road to Latin American integration, towards his "Bolivarian Alternative for the Americas" (ALBA). As the Summit will mark the beginning of Brazil's pro temp presidency, it will provide an interesting insight as to the new power dynamics within the bloc. Will Brazil maintain its traditional lead, will Chavez emerge as the new power to be contended with, or will there be a kind of "triumvirat" linking Kirchner, Lula and Chavez?

¶12. (C) As indicated by our GOU contacts (ref A), the idea of integrating Venezuela into Mercosur was Brazil's grand scheme to control Chavez. Our contacts implied that some in Itamaraty were starting to have second thoughts as to the wisdom of this plan, in particular after Chavez's heavy hand in the Bolivian nationalization of gas production. Our contacts told us, however, that the GOB is still supporting Venezuela's induction. Chavez has invited the presidents of the four Mercosur countries to Caracas for a July 4 celebration of Venezuela's accession. The date picked for the celebration is undoubtedly no accident.

¶13. (U) The Cordoba Summit could also see some announcement of a new customs code to take effect in 2008. This would certainly be a move in the right

direction, by facilitating trade and eliminating the double imposition of the CET. However, the press has referred to it as a "framework agreement", which does not seem too impressive. Both its scope and schedule of entry into effect are still undefined.

Low expectations for the Brazilian Pro Temp Presidency

¶14. (C) With the Brazilian presidential elections in October 2006, our GOU contacts do not expect that the GOB will concentrate much effort on Mercosur. Still, there have been statements by both Brazilian ForMin Celso Amorim and Presidential Foreign Policy Advisor Marco Aurelio Garcia published in the Uruguayan press, in which they declare that Brazil intends to focus its presidency on the "plight" of smaller members. Garcia is quoted as saying that he would be upset by the way Mercosur has failed if he were Uruguayan. Reports of planned major investment initiatives by Brazil's public banking entity BANDES have been taken with a grain of salt here, as people recall the many unfulfilled promises of investment flows of the past.

Comment: A failed presidency leads to a distracted one

¶15. (C) The perceived failure of Argentina's pro temp presidency has definitely had a negative effect on Uruguay's perception of Mercosur by weakening the bloc's institutional strength and exposing abuses by the larger members. Brazil's pro temp presidency may well be a distracted one, as the GOB concentrates on internal politics, elections and its problems with Bolivia. Chavez may take advantage of a perceived power vacuum to attempt to shape Mercosur, but the trading bloc's inherent sluggishness may prevent radical moves. While we may hear more bombastic statements coming out of an increasingly political

Mercosur, major policy shifts are unlikely. Uruguay will probably continue to loudly criticize Mercosur's failures but attempt to influence internal reform from within. End Comment.
Nealon